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Contributions to Economic Theory.

Morning and Afternoon Sessions, August 25.

THE INTERPRETATION OF RICARDO.

BY PROFESSOR SIMON N. PATTEN, OF THE UNIVERSITY OF PENNSYLVANIA.

Since the death of Ricardo, Ricardo and Ricardoism have been subjects of ardent controversy. The whole economic camp has been divided into two hostile parts. It is not my purpose to take up this discussion, and I think that it would be useless to inquire at the present time whether Ricardo was a great man or not. But there is a class of topics, related to this discussion, that are worthy of consideration. In the explanation of what Ricardo has done for political economy, the causes of the changes that have taken place in our deductive theorizing in recent years have been wrongly interpreted by the deductive economists themselves.

Early in the year 1815 a remarkable essay by Malthus appeared, which was the opening of a new kind of discussion—the discussion of rent. In the fall of the same year a still more remarkable essay by Ricardo appeared, in which the point of view of the modern political economy is more or less clearly stated. Yet we encounter a marvelous change when we pass from the contents of the essay by Malthus to

those of the essay by Ricardo. How shall we explain this later article, and the same author's still more remarkable Political Economy which appeared two years later? It might be claimed that, on reading Malthus' essay, a new theory of political economy loomed up before Ricardo, as a sudden inspiration. Such radical changes in the thinking of a mature man rarely take place. A favorite way out of this difficulty has been to ignore Malthus' books entirely, and treat rent and other doctrines of Ricardo as though they were products of his independent thinking solely. This is a great injustice to Malthus, and Ricardo is placed in a false light.

Ricardo's system is not to be regarded as a theory of distribution, but as a theory of prosperity, notwithstanding that Ricardo himself says otherwise in his preface. We all know that Ricardo's work was not systematic. His book was not a series of chapters, but rather of haphazard essays. He has not put in his preface the thought with which he started; the preface is rather the last chapter that he wrote. I then go back to the time before the theory of distribution assumed prominence. The point of departure of the earlier writings was a theory of prosperity. Economists had in mind the national and not the individual point of view.

In Adam Smith, as in the works of earlier thinkers, prosperity is studied in terms of an agricultural economy. Labor and rent are contrasted. Labor is cost, rent is surplus added by the development of society. Ricardo looks at the problem not as did Adam Smith, as a contrast between rent and wages, but as a contrast between profits and wages. He studied prosperity in terms of an industrial economy,

a town economy. Malthus, on the contrary, was a direct follower of Adam Smith. His contrasts are between rent and wages. He was constantly trying to show that increase of rent makes prosperity in society.

Ricardo, thoroughly familiar with the industrial conditions of England in his day, asked "Why are profits low?" The answer he found in the high price of food, itself a consequence of the high tariff. Malthus believed that a high price of food was a good thing for England, that it was therefore a good thing to have a protective tariff. The increase of population, he contended, made a demand for more food, which could be obtained only by the cultivation of poorer land. Therefore a nation could not be prosperous and populous without such an increase in the price of food as would make possible the cultivation of poor lands with the usual rate of profit to farmers. The high price of food was therefore the result of an increasing population and not of the corn laws.

Ricardo saw what Malthus did not see, that this doctrine of rent fitted into his own theory of profits, and made the proof that he had already developed, perfect. The theory of rent comes into Ricardo's system not as the basis, but as a better proof of the theory of profits that he had already developed. That theory of profits at first was a reply to Adam Smith's argument that a lowering of the rate of profits is due to competition. It was carefully thought out in Ricardo's mind before he caught the idea of using the theory of rent as a basis of his proof. Having made the substitution and inserted the chapters on rent, he began to conceive of his system as a theory not of prosperity, but of value and of distribution.

But it never became a complete theory of distribution. Ricardo had no theory of interest as we now conceive interest. So of the discussion relating to quite a number of other problems.

Consequently we must view the work of the earlier economists as more imperfect than we were inclined at one time to think. It is a great work, but in spite of that they left the science in an imperfect state. It has been the cause and the incentive of the later work. With such an interpretation as this, it seems to me we can bring Ricardo into perfect harmony with the later development of the science. We are willing to give him the greatest honors for the work that he did in starting out along these lines. The point is not so much whether he was right in his conclusions; it is rather that he gave us the incentive to go on in the right way. He started a discussion that has not ceased, and that gives promise of still further progress in the future.

Discussion.

Professor Taussig: We have all listened with great interest to Professor Patten's paper, and I think myself that what he says about Ricardo's theory being more a theory of prosperity than a theory of distribution is undoubtedly the key. I think it is a very suggestive point of view for approaching the interpretation of Ricardo, and that it helps us very much in considering the true meaning of that much disputed chapter in which Ricardo discusses the net income of society. I think that when Ricardo was thinking of net income of society he was merely thinking of the causes that brought about a distributable surplus. Nevertheless I should

be disposed to attach more weight than Professor Patten does to the result which Ricardo achieved in the theory of distribution. He started from reading Adam Smith, but he nevertheless found himself later interested in the problem of distribution. The contribution that Ricardo made to the theory of distribution is not so much in the theory of rent, for Malthus contributed that; or in his theory of profits, for after all that was nothing more than a very simple corollary from his theory of wages; it was in giving coherence to the theory of distribution. Wages and profits and rents are the different elements of distribution, dependent upon each other. Smith and Malthus had treated the theory of distribution as if wages were determined by one set of conditions. Adam Smith had glimpses of the law of rent. He had his notion that interest was determined by the competition of capital. What Ricardo did was to treat the theory of wages as something that cannot be considered independently of capital, and if I were to name what seems to me his most distinctive service to economy it would be this.

There is one further point on which I should differ, perhaps in emphasis. One of the earlier speculations to which Professor Patten did not refer, was the notion which held good all through the eighteenth century, that wages were determined by that which was necessary to keep the laborer. I think that it had a profound influence on Ricardo. Assuming it to be true, he traced its consequences in profits and rent. I would therefore lay more stress than Professor Patten does upon the notion that the wages of the laborer are determined by the price of food, or rather by what is necessary to keep the laborer. I think that

both Ricardo and Malthus had this idea. Malthus worked out something like a system deduced from a scientific basis, and I should think that it influenced Ricardo more than Professor Patten has supposed. I think very likely Professor Patten will agree with me in this. Yet I agree that Ricardo was not primarily interested in distribution. That is shown in his first chapter on value, in which he slides over the question of differences in wages in different employments. Nothing is more suggestive of the different ways in which the theory of distribution presented itself to Ricardo and to us than the neglect of that phase by Ricardo and the constantly growing attention which has been given to it by us in our own time. Ricardo did not speak of that at all, and the fact confirms, I think, what Professor Patten says when he throws out his first chapter in political economy and the bearing of his theory on the general question of distribution. It had not occurred to him. He had paid no attention to it.

“THE ULTIMATE STANDARD OF VALUE.”

BY PROFESSOR J. B. CLARK, OF SMITH COLLEGE.

A scientific standard for the absolute measurement of values is a necessity. Reciprocal standards give no sums total. The difficulty of attaining a usable standard disappears when we recognize the social nature of value. The practical world uses the dollar for this purpose because currency is adapted to represent social rather than individual labor. A labor unit that will measure wealth must be an act or experience of society.